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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION

In re:	)	
	)	
MEADOWCRAFT, INC.,	)	**Case No.** 02 09
	)	**Chapter 11 Proceeding**
Debtor.	)	

DEBTOR'S MOTION FOR AUTHORITY TO PAY PRE-PETITION SALES COMMISSIONS PURSUANT TO 11 U.S.C. §§ 105(a), 363(b), AND 507(a)

Meadowcraft, Inc., debtor and debtor-in-possession (the "Debtor"), moves the Court to authorize payment of pre-petition sales commissions and to direct banks to honor checks for payment of pre-petition sales commissions, as follows:

BACKGROUND

1. On September 3, 2002 (the "Filing Date"), the Debtor filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. § 101, et seq. (the "Bankruptcy Code").

2. The Debtor is operating its business and managing its affairs as debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code. No trustee, committee or examiner has been appointed in the Debtor's bankruptcy case.

3. The Debtor is a privately-owned corporation organized and existing under the laws of the state of Delaware with its principal place of business in Birmingham, Alabama.

4. The Debtor is the leading domestic producer of casual outdoor furniture and is the largest manufacturer of outdoor wrought iron furniture in the world. The Debtor designs, manufactures and distributes a variety of wrought iron consumer products, including outdoor and

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indoor furniture and accessories, and outdoor cushions and umbrellas, which it markets to mass merchandisers and specialty stores primarily in the United States. The Debtor believes that it has established a reputation as an innovator in the design, manufacturing, distribution and marketing of moderately priced, quality wrought iron furniture.

5. The Debtor offers consumers a wide variety of products across different price points in three markets: the outdoor mass market under the Plantation Patterns brand name; the outdoor specialty market under the Meadowcraft, Arlington House, and Salterini brand names; and the indoor mass markets under the Home Collection from Plantation Patterns brand name.

6. The Debtor during peak production periods employs over 1,700 people, and presently employs over 1,200 people in the state of Alabama. The Debtor owns manufacturing facilities in Birmingham, Jefferson County, Alabama, Wadley, Randolph County, Alabama, and Selma, Dallas County, Alabama. The Debtor recently closed its manufacturing and distribution operations in Yuma, Arizona and Mexico.

7. The Debtor generated net sales of approximately $123 million in fiscal year ending July 31, 2001. The Debtor suffered net operating losses of approximately $46 million in fiscal year 2001. The Debtor estimates net sales of $108 million in fiscal year ending July 31, 2002. Sales for fiscal year 2002 are lower than desired primarily as a result of the loss of approximately $15 million in sales from two of the Debtor's large mass merchandise accounts, Service Merchandise and K-Mart, due to these companies' bankruptcy proceedings. Additionally, the Debtor's specialty market sales were $5 million less than anticipated due to a down market for the industry. The Debtor projects operating losses of $1 million and net losses of $8 million to $10 million in fiscal year 2002.

8. The Debtor's poor financial performance in fiscal year 2001 is attributable to numerous factors. These factors include: (1) difficulties with the installation of and conversion to

new computer hardware and software systems; (2) substantial excess manufacturing capacity; (3) the manufacturing of product with low profit margins in an attempt to reduce costs associated with excess capacity; (4) reduced sales due to competition from China; and (5) reduced sales due to some mass merchandise customers being over stocked with product from China.

9. The Debtor's financial performance in fiscal year 2002 has substantially improved as a result of strong management and implementation of more stringent financial controls. In March, 2001, the Debtor retained Marcus A. Watson of Finley Colmer & Company to assist the Debtor in its financial turnaround. Mr. Watson presently serves as President of the Debtor. Under Mr. Watson's guidance, the following financial improvements have been made: (1) general and administrative expenses have been reduced by over $3 million; (2) manufacturing margins have improved from five percent (5%) to seventeen percent (17%); (3) product inventory has been reduced by $14 million; (4) obsolete inventory in the amount of $6 million has been sold; and (5) much of the excess manufacturing capacity has been eliminated through the closing of the Yuma, Arizona and Mexico facilities.

10. The Debtor has approximately $43 million in secured indebtedness. First, as of August 28, 2002, the Debtor owed approximately $77,000.00 to a group of banks (the "Revolving Lenders") under its $65 million working capital revolving loan facility. Second, the Debtor owes approximately $43 million to a group of banks (the "Term Lenders") who made term loans to the Debtor. The Revolving Lenders and the Term Lenders (collectively, the "Secured Parties") claim a lien on essentially all of the Debtor's assets.

11. In addition, the Debtor estimates its general unsecured debt to be approximately $24 million. Of the foregoing, approximately $16 million is owed to approximately sixty-two (62) trade vendors pursuant to vendor notes issued in the summer of 2001. The Debtor

also has additional unsecured indebtedness in the principal amount of $6 million owed to Blount Family Irrevocable Trust, L.L.C. and in the principal amount of $37.5 million owed to Samuel R. Blount, plus interest accrued on the foregoing obligations.

SUMMARY OF RELIEF REQUESTED

12. The Debtors utilizes the services of several independent representatives ("Salespeople") to assist in marketing and selling its products. The Salespeople are critical to the Debtor's ability to maintain a steady customer base and a steady supply of orders. Thus, in order to ensure that the Salespeople would continue to provide such services after the Filing Date, the Debtor in the ordinary course issued certain pre-petition checks to the Salespeople totaling approximately $20,000.00. Upon information and belief, some of these checks may not clear the Debtor's banks until after the Filing Date. The Debtor request authority to pay these checks which were issued pre-petition. Further, the Debtor requests authority to pay the August 2002 sales commissions in the total approximate amount of $50,000.00, which are due on or about September 20, 2002.

13. The Debtor requests the Court to authorize and direct the Debtor's banks to honor all checks for payment of pre-petition sales commissions to the Salespeople.

JURISDICTION AND NOTICE

14. The Debtor brings the motion (the "Motion") pursuant to Sections 105(a), 363(b), and 507(a)(3) of the Bankruptcy Code.

15. The Court has jurisdiction over the Motion pursuant to 28 U.S.C. § 1334(b). The Motion is a core proceeding under 28 U.S.C. § 157(b)(2).

16. No committee of unsecured creditors has been appointed in the Debtor's bankruptcy case. The Debtor has served a copy of the Motion on the 20 largest unsecured creditors, Bank of America, counsel for Bank of America, Cardinal Investment Fund, LLC ("Cardinal"),

counsel for Cardinal, LaSalle Business Credit, Inc. ("LaSalle"), counsel for LaSalle, Congress Financial Corporation ("Congress"), counsel for Congress, the Bankruptcy Administrator, and all parties requesting notice.

PAYMENT OF OBLIGATIONS

17. As discussed above, the Debtor has issued checks pre-petition to the Salespeople in the total approximate amount of $20,000.00. A list of these checks is attached hereto as Exhibit A and incorporated herein by reference. Further, on September 20, 2002, the Debtor will owe Salespeople for commissions arising from sales in August 2002. The Debtor estimates the August 2002 sale commissions will total approximately $50,000.00. The Debtor requests authority pursuant to Sections 105 and 507(a)(3) of the Bankruptcy Code to pay all pre-petition sales commissions owed to the Salespeople, including the checks which have been issued pre-petition and the checks which will be issued on or about September 20, 2002. Nothing in the motion constitutes assumption of executory contracts, and the Debtor reserves all rights. The Debtor further requests the Court to authorize and direct all banks and financial institutions to receive, process, honor and pay all checks presented for payment and to honor all funds transfer requests made by the Debtor related to the payment of sales commissions to the Salepeople.

18. Section 105(a) of the Bankruptcy Code provides that the Court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of the Bankruptcy Code. The purpose of Section 105(a) is "to assure the bankruptcy courts power to take whatever action is appropriate or necessary in aid of the exercise of its jurisdiction." 2 Collier on Bankruptcy § 105.01[1], at 105-5 to 105-6 (15th ed. rev. 2000).

19. Payments to the Salepeople fall under the "necessity of payment" doctrine, which allows the payment of pre-petition claims that are "indispensably necessary" to continuing the

debtor's operation. In re Sharon Steel Corp., 159 B.R. 730, 737 (Bankr. W.D. Pa. 1993). Courts recognize that employees and others will not continue to work during a bankruptcy case unless their pay and benefits remain intact and uninterrupted. See In re Equalnet Communications Corp., 258 B.R. 368, 370 (Bankr. S.D. Tex. 2000); see also In re Chateaugay Corp., 80 B.R. 279 (S.D.N.Y. 1987) (approving bankruptcy court order authorizing debtor to pay pre-bankruptcy wages, salaries, employee benefits and reimbursements and workers' compensation claims and premiums); In re Ionosphere Clubs, Inc., 98 B.R. 174, 177 (Bankr. S.D.N.Y. 1989) (court may invoke inherent equitable powers to approve payment of all pre-petition wage and other employment-related claims to active personnel); In re Gulf Air, Inc., 112 B.R. 152 (Bankr. W.D. La. 1989) (authorizing debtor to pay pre-bankruptcy wages, salaries, employee benefits and other employee related claims). There is no question that the Debtor relies upon the Salepeople to market its products and maintain a steady stream of orders. Such a steady stream of orders is absolutely necessary to continuing the Debtor's operations. The long time it would take for new Salespeople to develop relationships with customers and learn about the Debtor's products would be extremely disruptive to the Debtor's sales and operations.

20. Courts often permit the payment of pre-petition claims that are relatively small and would ultimately qualify as priority claims such as the sales commissions at issue in the case at bar. See, e.g., In re Quality Interiors, Inc., 127 B.R. 391, 396-97 (Bankr. N.D. Ohio 1991). Further, as evidenced by Exhibit A, none of the amounts of the checks previously issued for sales commissions to any of the Salespeople exceeds the $4,650.00 maximum amount allowed for Section 507(a)(3) priority claims. The Debtor submits that nearly all of the August 2002 commissions to be paid on or about September 20, 2002 will be entitled to priority status. However, distinguishing

between priority and non-priority claims will be burdensome. Thus, the Debtor requests an order authorizing, but not directing, the Debtor to pay all pre-petition sales commissions.

21. The total amount of the sales commissions paid to the Salespeople is small relative to the loss the Debtor will suffer from a loss of the Salespeople. If such payment is authorized, such authorization shall not be deemed automatically to constitute post-petition assumption or adoption of any contracts.

CONCLUSION

22. Payment of the Salespeople is necessary to maintain the Debtor's operations. The loss of value associated with a loss of sales force will irreparably harm the Debtor's estate and its creditors.

23. Therefore, approval of the Motion is in the best interests of the estate, and the relief requested is proper under Sections 105(a), 363(b), and 507(a)(3) of the Bankruptcy Code.

WHEREFORE, the Debtor respectfully requests entry of an order granting the relief requested herein and such other and further relief as the Court deems just and proper.

Respectfully submitted this 3d day of September, 2002.

Sherri T. Freeman
Edward J. Peterson
Lloyd C. Peeples, III

Counsel for the Debtor

OF COUNSEL:
BRADLEY ARANT ROSE & WHITE LLP
ONE FEDERAL PLACE
1819 Fifth Avenue North
Birmingham, AL 35203-2104
(205) 521-8000

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing upon all parties listed on Exhibit 1 attached hereto by the manner indicated therein, or by placing a copy of same in the United States Mail, first-class postage prepaid and addressed to their regular mailing address, on this 3d day of September, 2002.

OF COUNSEL

1/972534.1

EXHIBIT "A"

Meadowcraft, Inc.
Sales Commissions
August 26 through August 29

1348	08/26/2002	$209.78	CARRENE RESSA DBA/	Sales Commissions
1347	08/26/2002	$1,343.96	CRAIG M WELSH	Sales Commissions
1349	08/26/2002	$84.84	DAVID H. ROSEN	Sales Commissions
1367	08/26/2002	$166.60	DICK SHERWOOD (NO 1099)	Sales Commissions
1350	08/26/2002	$14.21	DONN RASEMAN	Sales Commissions
1351	08/26/2002	$1,243.82	ED MCGEENEY AND ASSOCIATES	Sales Commissions
1352	08/26/2002	$1,786.03	FORREST DUNLAP III, INC.	Sales Commissions
1353	08/26/2002	$101.64	GLEN H KUOPUS DBA/ KOPER ENTER	Sales Commissions
1355	08/26/2002	$1,603.95	GOLL SALES, LTD.	Sales Commissions
1354	08/26/2002	$357.57	GSM MARKETING GROUP LLC	Sales Commissions
1356	08/26/2002	$966.39	HECKMAN MARKETING ASSOCIATION	Sales Commissions
1357	08/26/2002	$2,132.13	JERRY STROUPE, JR	Sales Commissions
1358	08/26/2002	$166.60	JERRY STROUPE, JR.(NO 1099)	Sales Commissions
1361	08/26/2002	$543.36	JOHN C. KOSSLER DBA/	Sales Commissions
1359	08/26/2002	$706.19	JOHN TERRY RICHARDSON	Sales Commissions
1371	08/26/2002	$671.46	MITCH PEARSON DBA/E & M PEARSO	Sales Commissions
1362	08/26/2002	$87.70	PAUL GEISEMAN	Sales Commissions
1363	08/26/2002	$985.14	ROBERT F. DURDEN	Sales Commissions
1364	08/26/2002	$1,733.30	RON FREIDBERG & SONS, INC.	Sales Commissions
1365	08/26/2002	$161.61	RONNIE FREIDBERG (NO 1099)	Sales Commissions
1366	08/26/2002	$806.28	SHERWOOD ASSOCIATES, INC.	Sales Commissions
1368	08/26/2002	$562.85	SOUTHERN FURNITURE SALES	Sales Commissions
1369	08/26/2002	$2,037.25	TERESA DOYLE DEAN	Sales Commissions
1370	08/26/2002	$1,515.78	TERESA J CAMPBELL-SEE T. J. CA	Sales Commissions
1380	08/27/2002	$694.95	VULCAN MARKETING, INC.	Sales Commissions
Total		$20,683.39		

EXHIBIT 1 TO ALL FIRST DAY MOTIONS
GENERAL SERVICE LIST

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Mary M. Blount, as custodian
Ocean Reef Club
29 Cardinal Lane
Key Largo, Florida 33037
(Fax Number: 305-367-5036)

Blount Family Irrevocable Trust, LLC
c/o Joseph W. Blackburn, as Manager
Sirote & Permutt PC
P. O. Box 55727
Birmingham, AL 35255-5727
(Fax Contact: Joseph W. Blackburn, Esq.)
(Fax Number: 205-930-5101)

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350 5th Avenue
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New York, NY 10118
(Fax Contact: Peter Blohm)
(Fax Number: 212-643-9698)

Bank of America Leasing
and Capital Group
2059 Northlake Pky., 4th Floor
Tucker, GA 30084
(Fax Number: 770-270-8603)

Ferrostaal, Inc.
16510 Northchase Dr.
Houston, TX 77060
(Fax Contact: Matthias Lietsch)
(Fax Number: 281-878-0729)

Rusken Packaging, Inc.
P. O. Box 2100
Cullman, AL 35056-2100
(Fax Contact: Greg Rusk)
(Fax Number: 256-775-0353)

Hanna Steel
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(Fax Contact: Phyllis T. Paramore)
(Fax Number: 205-783-8246)

PPG Industries, Inc.
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(Fax Contact: Bob Hamilton)
(Fax Number: 412-434-4491)

CWS Powder Coatings Co., L.P.
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(Fax Contact: Jonathan Abrams)
(Fax Number: 914-835-4042

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Alton, IL 62002
(Fax Contact: James Handley)
(Fax Number: 408-496-5049)

Cone Mills Corporation
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Greensboro, NC 27408
(Fax Contact: William Tonkin)
(Fax Number: 336-379-6949)

New Metals, Inc.
5823 Northgate, Suite 2032
Laredo, TX 78041-2697
(Fax Contact: Kevin Hamrick)
(Fax Number: 956-726-8190)

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19 Musick
Irvine, CA 92618
(Fax Contact: Nick Wu)
(Fax Number: 949-770-8659)

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(Fax Contact: Wanda Whitt)
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(Fax Contact: Wendy Lester)
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(Fax Contact: Debbie Neiterman)
(Fax Number: 914-251-1656)

Hynes Industries
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(Fax Contact: Tim Bresnahan)
(Fax Number: 330-797-8008)

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